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Chief, D/E

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Comments on CFEF Drafting Group - Staff Study No. 1

1. General

This study represents a significant advance in analytical thinking on the subject of general trade control techniques. The discussion of past and present trade control policies (e.g., para. 33 - 35) and of actual and possible criteria is particularly acute.

On the other hand this study does not fulfill the promise of its title ("Evaluation of Objectives and Criteria for Controlling Trade With the Soviet Bloc"). It is more limited in scope, being concerned almost exclusively with the problem of developing a rational quantitative method of maximizing the long-run economic cost imposed on the bloc by Free World trade controls. (Can the impact of a given system of trade controls be adequately measured by long-run effects alone, or by economic costs alone?) Thus, though it makes a number of penetrating observations and promising suggestions, it by no means represents the last word on the subject.

It should also be recognized that the relative cost criterion, although potentially useful for economic defense purposes, is subject to severe limitations:

- a. In the foreseeable future its results are bound to be unreliable because of the very unsatisfactory data to which it must be applied (the necessary data for Communist China in particular are almost completely unavailable).
- b. It is only able to provide one piece of (necessarily inconclusive) evidence for the control of particular commodities or commodity groups. For example, its application to prototypes, "unique" commodities, conditions of highly inelastic supply, etc., seems purely theoretical; in practice it would need to be supplemented by non-quantitative criteria.
- c. It is not likely to prove convincing in the horse-trading atmosphere of international negotiations.

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d. It could not be applied to the narrowly defined commodities on the present trade control lists, but would require greatly broadened definitions. Although such a broadening of definitions is desirable for many reasons from the U.S. point of view, it would probably not be acceptable to other Free World countries.

e. The time and effort required for a comprehensive relative-cost analysis of all major commodities (or commodity groups) imported by the bloc would be very great.

2. In addition to the general shortcomings pointed out above, this study contains a number of erroneous or misleading statements.

Page 1

* (First sentence.)

This is a correct description of the trade-control program, but not of the economic defense program as a whole. Accordingly, this sentence should begin, "The basic objective of the trade-control program...."

Note: The means by which economic defense objectives may be pursued include considerably more than "controls on the trade and other economic relations of the bloc". It is not necessary to go so far as the official US definition of "economic warfare" set forth in NIE 10-54, which includes economic measures of all kinds. The prevailing concept of economic defense measures includes a number of international economic measures that could not be described, even loosely, as trade controls - e.g., preemptive buying, patent licensing (and other forms of control over the distribution and use of technological data), economic and technical assistance to neutral countries, etc.

Page 2

* (First sentence of first full paragraph.)

Change to: "... the maximum impairment or retardation...."
This economic defense objective concerns the growth as well as the present level of bloc capabilities.

* (Par. 1 - first sentence)

The subject of this sentence should be "The present multilateral export control program". See comment (above) concerning page 1 of the Study.

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Page 15

(Par. 22 - first sentence.)

Change first sentence to read: "It is not certain to what extent the existing controls actually limit the total volume of East-West trade". This change is intended to avoid possible misinterpretation and to preclude quotation out of context.

(Fifth sentence)

Although this is a minor matter, it deserves to ^{be} pointed out that the Soviets have recently used gold on what most people would call "a large scale" (both in relation to the gold exports of other countries and as a percentage of the value of Soviet imports).

* (Par. 23 - first sentence.)

This statement is unnecessarily controversial. Change to: "Even if one admits that the present controls actually depress the volume of trade, this effect is probably slight in relation to Gross National Product."

* (Last sentence.)

Change to read "... a specific substantial relaxation of controls...." (NIE 100-3-54 did not purport to apply to all substantial relaxations of controls, as might otherwise be assumed from this statement.)

Page 16

* (Par. 24 - last sentence.)

This sentence should reflect the fact that the impact on the bloc of specific trade controls, although it tapers off as adjustments are made, is cumulative through time. Thus, the last clause might read: "... their long-run annual cost is certain to be less than it was in the short-run."

Pages 17 and 18

(Pars. 26 and 27.)

This discussion describes long-run effects, but generally ignores short-run effects. Hence the title should be "Incidence of Long-Run Effects Within the Bloc".

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Otherwise, the word "permanently" (or some equivalent expression) should be inserted in the fifth sentence of par. 26 between "would" and "reduce", and in the fourth sentence of par. 27 between "will" and "limit"; the word "eventually" (or some equivalent expression) should be inserted in the fifth sentence of par. 27 between "will" and "produce".

In the sixth sentence of par. 27, the first word ("This") has no expressed antecedent. This sentence might read: "Thus there may be a long-run effect on ... but not on"

In the sixth and eighth sentences respectively, the phrases "although insignificant" and "though probably very slight" should be deleted. They are irrelevant to the subject of this section, since they concern the magnitude rather than the incidence of effects within the bloc; in addition, they are controversial and vague.

Page 19

(Par. 29 - second sentence)

In its present form, this statement is highly exaggerated. (We can actually say far more about the impact of the present program than the sentence admits.) It might correctly read: "Thus all we can now say quantitatively ... on the basis of our present statistical knowledge"

(Par. 30 - first sentence.)

The dependent clause is highly exaggerated (see previous comment). It might read: "Since the quantitative impact of the present program"

(Last sentence)

Change to "The quantitative effect of trade controls"

Page 21

(Par. 33 (c))

Change to: "This cost is small (relative to Gross National Product)...."

Page 22

(Par. 36 - fourth sentence.)

"... in practically no case ..." is too extreme. An improved type of atomic bomb, for instance, would surely be an exception. Read: "... in very few cases"

Page 23

(Par. 38 - first sentence.)

This statement is true only if it is confined to economic considerations. It should therefore be modified - e.g., by the introductory phrase, "From an economic point of view"

Page 25

(Par. 41.)

This paragraph should be recast or deleted. In its present form, it is obscure, and seems to suggest that selective trade-control techniques do not require any reorientation of the foreign economic relations of "neutral" countries.

Page 29

(Par. 49.)

This discussion, like what precedes it, is confined to long-run economic effects. This limitation is legitimate, but should be made explicit. Thus, the second sentence might read: "... so that in time it can produce..."; and the fourth: "... the only long-run economic burden of trade controls...."

(Fifth sentence.)

This is an overstatement. It might be revised to read: "Since the primary long-run economic effect of trade controls is to raise real costs, an appropriate criterion...."

Page 30

(Par. 51 - last sentence.)

Change to: "... a maximum economic burden"

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RR/D/E/ST (21 June 55)